

Expansion of Exports Supports Domestic Business

Merchandise Trade Surplus Expands to 3-Year High

**Export gains in industrial materials and capital goods to Europe and Japan
Imports are lowest since early 1959; industrial materials and automobiles lead decline**

Position of U.S. in World Trade Analyzed

AS RECENTLY as a year and a half ago, contraction in the U.S. merchandise export surplus was a prominent factor contributing to the increasing deficit in the nation's balance of international payments. The restoration and rapid expansion of the trade surplus in the brief period since that time have reversed the previously unfavorable impact of merchandise transactions upon our international financial position.

Differential movements in business activity here and abroad have helped to raise the export balance. These same diverse economic trends, however, have induced capital movements, particularly during the second half of the year, which more than offset the beneficial effect on the balance of payments that otherwise could have been expected from the favorable shift in our trade position. This is discussed in the analysis of recent changes in our international status that appears earlier in this issue.

With the slowing down in our economic pace during the course of 1960, the brisk rate of export business has become a welcome stimulus to domestic output of a broad range of commodities. At the same time lower imports of some manufactured products have also exerted a favorable influence on production schedules in several of the Nation's leading industries which have recently demonstrated an increased ability to vie with foreign competition in the home market.

In the second quarter of 1960, the margin of merchandise exports over imports stood at more than \$4 billion at a seasonally adjusted annual rate as compared to the abnormal situation prevailing a year earlier when our trade interchange was in virtual balance. During the third quarter, the merchandise surplus climbed by still another \$1 billion, topping the \$5-billion mark for the first time since 1957, when the Suez crisis had provided a temporary stimulus to exports. More recently, our large positive trade balance has been well maintained as evidenced by export and import data for October 1960.

Though lower imports and higher exports have operated as partners in the rebuilding of our positive trade balance over the past year as a whole, higher exports played a more important part in this development (see chart).

Exports near record; imports off

Exports in the July-September quarter 1960 hit \$20 billion at a seasonally adjusted annual rate, having advanced by more than \$4½ billion or by 30 percent, as compared with the cyclical low in the first quarter of 1959.

The recent expansion of exports has been much slower than was the case during the earlier phase of the upswing. The third quarter gain in exports of half a billion dollars at a seasonally adjusted annual rate was absolutely and relatively much less than the corresponding advances attained in the previous two quarters.

Imports, in contrast to exports, have drifted gradually downward since late

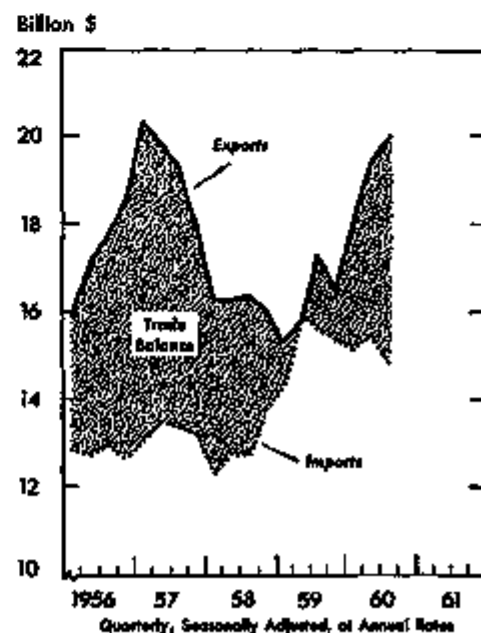
1959. After a brief rally in the spring quarter, imports were again on the downgrade in the third quarter, sliding by over half a billion dollars to a seasonally adjusted annual rate well below \$15 billion. This total, the lowest since January-March 1959, was more than \$1 billion below the record rate established in the second quarter of last year.

Area distribution of trade

In the first three quarters of 1960, improvement in the balance with Western Europe and Japan accounted for

EXPANSION IN U.S. TRADE SURPLUS*

Third Quarter Merchandise Exports
Exceed Imports by \$5 Billion at Annual Rate



* Excluding military goods

U. S. Department of Commerce, Office of Business Economics 60-12-5

NOTE: Substantial portions of the data contained in this article were prepared by Hugh L. Hodge.

nearly three-fourths of the year-to-year gain in the overall trade surplus. This change, which coincided with the expansion of European and Japanese business activity to new highs, merits more than ordinary attention. It reversed a pattern which had characterized U.S. trade with these areas during the preceding period of more than 2 years. Beginning in the latter part of 1957, there had been a steady deterioration in, and eventual elimination of, our traditionally large export surpluses with Europe and Japan, and by the spring of 1959 a small net import balance had developed.

During the middle two quarters of 1960, net receipts from trade with Western Europe aggregated nearly \$2.8 billion at an annual rate, reflecting a gain in exports of almost \$2.2 billion (up nearly one-half) and a drop in imports of about \$0.6 billion (down about one-eighth), as compared with the corresponding 6-month period a year earlier when our export and import trade with that area was about evenly matched (table 1).

In the same middle quarters of 1960 the merchandise account with Japan showed a moderate surplus, in contrast to a sizable import balance a year earlier. Although imports from Japan continued to rise during this period, the increase in imports was more than offset by the advance in exports. Such exports to Japan were up by almost one-half, having advanced relatively about as fast as exports to Western Europe.

Aside from Western Europe and Japan, the other areas which contributed prominently to the recent rise in the overall export surplus include a few countries in the outer sterling area—Australia, India, and the Union of South Africa—and Eastern Europe.

Minor shifts in Canada and Latin America

During January–September 1960, the export surplus with Canada was almost identical with that of a year ago. Whereas in the first quarter of 1960 both exports to and imports from Canada had been higher than a year earlier, the totals for the following six months showed a moderate year-to-year decline in our two-way trade with

that country, having been adversely affected by the slackening in Canadian economic activity and the more recent leveling tendency in our own economy.

For nearly 2 years our overall trading account with the 20 Latin American republics has been in approximate balance. Relatively little change has occurred in either exports to or imports from Latin America as a whole.

The Cuban market was approaching virtual collapse even before the imposition of the recent embargo. The

current rate of exports to Venezuela is the lowest in 5 years. Major losses in exports to these two countries since last year have been compensated by increased shipments to a number of other southern destinations including Mexico, Argentina, Chile, Colombia, and Uruguay. In the case of imports, reduced arrivals from Cuba since May likewise have been largely offset by expanded purchases from other Latin American sources including Venezuela, Peru, and Mexico.

Role of Six Key Commodities

THE steep climb in the overall merchandise surplus reflects favorable shifts in exports and imports of a broad range of commodities, but six major individual commodities have led the expansion (table 2). During July–September, steel, cotton, and aircraft together accounted for almost two-fifths of the year-to-year gain in the export surplus.

Another trio—passenger cars, copper, and aluminum—contributed an additional one-fourth of the total improvement.

Though the United States did not resume its pre-1959 position as a net exporter of steel until May 1960, by the third quarter the excess of exports over imports had risen to \$340 million

Table 1.—U.S. Exports,¹ General Imports, and Trade Balance, by Selected Countries

[Millions of dollars]

	Exports, including re-exports (excluding military aid)					General imports					Trade balance—Net exports (+) or net imports (-)				
	I	II	III	Jan.-Sept.	IV	I	II	III	Jan.-Sept.	IV	I	II	III	Jan.-Sept.	IV
	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Total.....	3,844	4,308	4,862	11,996	4,343	3,867	3,854	3,828	11,250	3,862	277	246	223	748	281
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Western Europe and Japan, total.....	1,289	1,334	1,418	4,822	1,080	1,284	1,394	1,431	4,020	1,524	63	-60	-13	10	156
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Western Europe.....	1,088	1,119	1,204	3,848	1,006	1,000	1,148	1,152	3,300	1,224	34	-29	22	30	171
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Japan.....	1,224	1,222	1,094	9,974	1,811	1,811	1,084	1,177	3,182	1,188	34	-60	-13	10	156
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Other areas—total.....	2,555	2,974	3,444	7,174	3,263	2,583	2,460	2,397	7,230	2,338	43	-100	-26	20	225
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Canada.....	882	1,060	944	2,882	942	882	802	771	2,179	802	270	254	178	703	80
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Latin American Republics.....	64	-60	-13	10	156	64	-60	-13	10	156	64	-60	-13	10	156
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Australia.....	46	51	82	176	87	46	51	82	176	87	11	-1	20	32	27
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
India.....	122	123	68	283	83	122	123	68	283	83	18	63	44	126	2
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Eastern Europe.....	19	10	40	21	22	19	10	40	21	22	8	23	27	7	3
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
All other countries.....	624	838	604	1,848	604	624	838	604	1,848	604	57	114	622	1,913	607
Year-to-year change.....	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963

1. Global and area export data exclude military aid shipments under the Mutual Security Program (MSP), but include "cash" special category exports (potential military and loans not shipped under MSP military aid programs). Individual country totals (Japan, Australia, India) exclude all special category exports, whether shipped as MSP aid or for "cash."

2. Year-to-year change in Trade Balance: Increase in net exports or decrease in net imports (+); Decrease in net exports or increase in net imports (-).

3. Includes "cash" special category exports to Japan.

4. Includes "cash" special category exports to Japan, Australia, and India.

Source: U.S. Department of Commerce, Office of Business Economics.

at an annual rate, the highest margin since the spring of 1958. As compared with the fourth quarter of 1959, when the disruptive effects of the domestic steel strike upon our foreign trade had been greatest, and net imports had amounted to more than \$550 million at an annual rate, the trade balance in steel had shifted in our favor by nearly \$900 million. The gain in exports and corresponding drop in imports had contributed almost equally to this major swing.

Cotton exports in 1960 promise to be among the highest in any postwar year. Based upon actual data for January-October and estimates for November and December, exports of cotton will be around \$900 million, a figure nearly twice as large as such exports in 1959 when foreign demand for U.S. cotton had been at the lowest since 1947. While exports during the current season which began in August may fall somewhat short of the 7.2 million bales exported in 1959-60, it is anticipated by the U.S. Department of Agriculture that they will be well in excess of 6 million bales.

Peak exports of aircraft; nonferrous metals

Exports of civilian-type aircraft during 1960 will be double their 1957 value, the previous record for such deliveries. During the first 10 months of the current year, aircraft exports (mainly jets) rose to over \$600 million at an annual rate, an amount \$470 million above the annual rate of January-October 1959.

New annual highs for exports of copper and aluminum are also assured for 1960. The initial quarter of the year brought the first reversal in this nation's historical role as a net importer of aluminum. Our new position as a net exporter was sustained until October when exports of aluminum declined to a rate about equal to that of imports. In the second quarter, the U.S. also abandoned its usual role as a net importer of copper, a role which has been customary since 1939. Exports of copper until October continued to top imports.

Auto imports off

Our wide margin of imports over exports of passenger cars—a situation which has existed for about 3 years—

has become steadily narrower since the third quarter of 1959 as the new compact American cars introduced a major factor of competitive importance. In the three months ended October 1960, imports fell to an annual rate of about \$310 million, less than half the amount recorded in the comparable quarter of 1959. It is estimated that unit imports for the year 1960 will total between 450,000 and 475,000—roughly 200,000 under 1959. Exports of passenger cars meanwhile, have performed even more poorly than was the case last year.

Industrial Materials Aid Surplus

In contrast to the six key items, which contributed \$2½ billion, at an annual rate, to the overall year-to-year gain in the third quarter trade surplus, all other commodities taken together were responsible for less than \$1½ billion of the total advance. At least \$670 million of the latter amount resulted from the changed pattern of our trade in a variety of crude and semi-manufactured materials. At the same time our trade deficit in foodstuffs was

Table 2.—U.S. Exports, General Imports, and Trade Balance, by Selected Commodity Groupings

(Millions of dollars)

		Exports, including re-exports (excluding military aid)					General imports					Trade balance ¹ —Net exports (+) or net imports (-)				
		I	II	III	Jan.-Sept.	IV	I	II	III	Jan.-Sept.	IV	I	II	III	Jan.-Sept.	IV
Total	1960	3,844	4,100	4,053	11,996	4,343	3,567	3,854	3,829	11,290	3,962	277	246	223	746	381
	1959	4,819	5,062	4,735	14,412	5,000	3,890	3,830	3,683	11,773	4,032	816	1,223	1,102	3,313	3,313
Year-to-year change		-775	-962	-682	-2,416	-657	-323	-24	-254	-483	-70	-539	-977	-879	-2,567	-2,932
Six selected commodities, total	1960	361	347	257	965	449	392	405	405	1,332	632	-21	-118	-228	-397	-103
	1959	728	707	678	2,169	854	854	863	853	1,250	632	172	304	382	939	939
Year-to-year change		-367	-360	-421	-1,204	-405	-462	-458	-448	-918	-22	-182	-608	-714	-1,306	-1,038
Cotton, unmanufactured	1960	361	347	257	965	449	392	405	405	1,332	632	-21	-118	-228	-397	-103
	1959	728	707	678	2,169	854	854	863	853	1,250	632	172	304	382	939	939
Year-to-year change		-367	-360	-421	-1,204	-405	-462	-458	-448	-918	-22	-182	-608	-714	-1,306	-1,038
Steel mill products	1960	114	137	59	211	51	70	187	149	378	200	22	-10	-79	-87	-139
	1959	118	120	172	470	200	129	87	424	40	22	-91	81	85	65	65
Year-to-year change		-4	17	-113	-259	-149	41	100	-175	238	-18	113	-91	-154	-122	-139
Copper, unmanufactured	1960	48	37	28	118	10	44	75	93	234	121	-19	-38	-57	-124	-106
	1959	82	105	124	281	163	70	79	203	121	121	-53	20	43	18	18
Year-to-year change		-34	-68	-96	-163	-153	74	-4	-110	113	-102	36	-58	-80	-106	-106
Aluminum, unmanufactured	1960	12	14	31	47	36	26	41	49	118	38	-14	-27	-28	-66	-3
	1959	25	43	43	137	27	27	24	24	25	25	25	28	18	42	42
Year-to-year change		-13	-29	-12	-90	-91	-1	17	25	93	13	-39	-56	-40	-108	-45
Commercial aircraft	1960	26	10	30	65	65	11	12	3	31	6	16	7	42	64	86
	1959	85	177	152	444	7	7	9	9	20	78	78	108	178	424	424
Year-to-year change		-59	-167	-122	-379	-6	-6	-1	-1	-11	-72	-62	-98	-136	-360	-338
Passenger cars, new	1960	70	57	25	102	48	175	186	178	549	183	-108	-120	-143	-287	-120
	1959	74	62	27	153	107	162	86	434	154	154	-122	-100	-98	-287	-120
Year-to-year change		-4	-5	-2	-51	-59	-87	100	-106	-105	-105	14	-20	-45	-60	-60
Other commodities, total	1960	3,483	3,753	3,796	10,991	3,894	3,175	3,349	3,424	9,958	3,330	298	364	451	1,149	484
	1959	3,880	4,355	4,057	12,243	4,146	3,244	3,427	3,230	9,523	4,032	540	919	820	2,860	3,313
Year-to-year change		-397	-602	-261	-1,252	-252	-669	-78	214	435	-70	-342	-555	-369	-1,711	-2,932
Crude and semi-manufactured metals, n.e.s.	1960	237	295	264	2,428	903	1,470	1,470	1,261	4,340	1,401	-75	-671	-137	-1,800	-488
	1959	808	1,017	1,080	2,601	1,388	1,400	1,219	1,219	4,219	1,219	-490	-372	-289	-1,192	-1,192
Year-to-year change		-571	-722	-816	-1,173	-485	-30	251	41	121	-118	285	-307	-152	-700	-700
Finished manufactures, n.e.s.	1960	2,132	2,458	2,532	8,563	2,991	1,705	1,879	2,163	5,518	1,929	1,277	1,031	1,080	3,024	1,080
	1959	2,397	2,613	2,385	7,069	2,048	1,444	1,110	3,321	3,321	3,321	1,218	1,300	1,170	2,708	2,708
Year-to-year change		-265	-155	-853	-1,506	-557	261	769	-1,212	197	-1,392	69	-269	-190	-684	-1,028
Machinery and related items	1960	843	945	883	2,091	908	117	147	128	302	147	730	618	756	2,280	781
	1959	948	1,048	980	2,900	1,400	143	118	118	401	401	618	695	842	2,643	2,643
Year-to-year change		-105	-103	-100	-809	-492	-26	29	110	-99	-254	112	-77	-186	-363	-363
Other, n.e.s.	1960	1,389	1,307	1,349	3,845	1,360	738	874	908	2,520	996	551	443	341	1,224	901
	1959	1,329	1,405	1,329	4,123	2,648	1,081	1,001	2,030	3,321	3,321	401	444	338	1,103	1,103
Year-to-year change		60	-98	20	-278	-1,288	657	873	877	-801	-1,325	150	-31	-13	-123	-202
Foodstuffs	1960	570	628	607	1,875	648	651	809	917	2,060	782	-272	-344	-290	-785	-237
	1959	651	708	670	3,031	710	710	878	812	2,480	782	-130	-175	-142	-450	-450
Year-to-year change		-81	-80	-63	-1,156	-62	-119	-78	87	-420	-598	142	-171	-152	-325	-325
Reexports	1960	46	48	42	135	47	—	—	—	—	—	46	48	42	135	47
	1959	53	49	60	152	—	—	—	—	—	—	53	49	60	152	—
Year-to-year change		-7	1	-18	-17	47	—	—	—	—	—	-7	1	-18	-17	47

1. Year-to-year changes in Trade Balance: Increase in net exports or decrease in net imports (+); Decrease in net exports or increase in net imports (-).

Sources: U.S. Department of Commerce, Office of Business Economics, from basic data of Bureau of the Census.

eased to the extent of about \$430 million. The export surplus on finished manufactures (excluding steel, aircraft, and autos) was at an annual rate scarcely \$300 million above that of July-September 1959.

The strengthening of the U.S. position in crude and semimanufactured materials was accomplished with the cooperation of both higher exports and lower imports of such important commodities as rubber, chemicals, lumber, paper base stocks, textile fibers, and hides and skins. It was reinforced by a large expansion in exports of iron and steel scrap.

Fuel and unmanufactured tobacco were, in fact, the only major items within this grouping which failed to contribute to our improved position in the third quarter. On the basis of their performance during the first three quarters of the year exports of coal during 1960 will be the lowest in 6 years.

Pattern of Finished Manufactures

While during 1960 exports of both finished manufactures and crude and semifinished goods, after excluding the six key items, have been higher than a year ago, the year-to-year gain of 8 percent in manufactured exports in the first 9 months of 1960 did not approach the almost one-fifth rise in exports of crude materials and semimanufactures. On the import side, moreover, manufactures rose whereas crude and semifinished goods declined.

The improvement in the surplus on manufactured goods, after excluding civilian aircraft and steel, was largely due to higher exports of machinery and a few other types of capital equipment, such as trucks and buses, and railway equipment, needed for industrial development abroad. Some increases also occurred in exports of a variety of consumer goods and other miscellaneous items—especially those which had benefited by import liberalization measures adopted by countries in Europe and elsewhere in the world, notably Australia. The higher receipts from such exports, however, were largely cancelled out by rising payments for imports of textiles, rubber and leather goods, transistor radios, and a few other types of manufactures.

During the first three quarters of 1960, machinery exports were up from a year earlier by a margin averaging about one-tenth, with most of the increase accounted for by enlarged shipments to Western Europe. Above-average relative gains were recorded by exports of specialized industrial equipment including office and textile machinery. Imports of machinery, which in the first quarter of 1960 had scored a year-to-year increase of nearly one-fifth, have since dipped below the rate of a year earlier.

Trade in Foodstuffs

Most of the reduction from last year in net payments for foodstuffs reflected shifts in trade of only three commodi-

ties—grains, coffee, and meat. Based upon the January-October period, grain exports during the current calendar year will surpass those of 1959 by several hundred million dollars and will be the highest since 1948. Due to less favorable crop conditions in Europe and to the stepped-up schedule of deliveries to India under the assistance program sanctioned by Public Law 480, wheat exports during the current season which began in July may be even higher than in the 1959-60 crop year.

Thus far in 1960 (January-October), payments for imports of meat and coffee have been at annual rates about \$100 million and \$70 million, respectively, below those of a year earlier.

Sensitivity of U.S. Exports to Overseas Business Conditions

SINCE the current expansion in exports is linked so closely with the flow of industrial materials, machinery, and a few other key commodities to Western Europe and Japan—areas which are currently experiencing unprecedented business prosperity—it may be relevant to examine some of the past responses of our exports to cyclical swings in the economies of these countries. Before looking backwards, however, some attention should be devoted to the current status of the European and Japanese industrial booms.

The nearly 2-year old upsurge in Western European business activity, which by the second quarter of 1960 had lifted output in the OEEC countries by a total of nearly one-sixth, appears to have become less steep than was the case during the earlier phase of the advance. Though in the second quarter of this year the seasonally adjusted index of industrial production for the OEEC countries combined rose at least 2 percent over the previous quarter, this progress was slower than several months earlier and less than half that which occurred in the final months of 1959. Developments during the late summer and early fall have confirmed such evidence of a slower expansion in

the European economies as production approaches capacity limitations and is retarded by bottlenecks.

This is particularly true in the Common Market area, but in the United Kingdom weaknesses have appeared in several industries, particularly those producing consumer durables. In Japan production continued to expand rapidly but also at somewhat slower rates than in 1959.

Exports respond to cyclical swings abroad

From the first half of 1957 to the like period of 1958, nonmilitary exports to Western Europe and Japan underwent declines of nearly 30 and 40 percent, respectively. These major decreases coincided with a more levelling out in European business activity and with only a very modest and short-lived dip in Japanese industrial output. While the initial reactions of our exports to the upturns in European and Japanese business activity during the latter part of 1958 were negative, this lag in response has been more than compensated during the current year. In the first half of 1960, exports to both destinations increased over the comparable period of 1959 relatively much faster than did industrial production in these areas.

The current vulnerability of our exports to possible slowdowns in business activity in overseas industrialized countries should not, of course, be measured on the basis of the magnitude of our 1957-58 export declines to these areas. However, some insight into this problem may be gained by examining the behavior of a few commodities responsible for much of the change in overall exports to Western Europe over the past 4 years.

Shifting Export Pattern to Europe

Exports of coal and petroleum—which together had been responsible for more than two-fifths of the total rise in nonmilitary exports to Western Europe from the first half of 1956 to the like period of 1957, and for over one-third of the subsequent decline in such exports from the first half of 1957 to the first half of 1959—accounted for only 4 percent of our total exports to Western Europe in January-June 1960. This portion was less than one-fourth as much as that in the same months of 1957. Any further downward changes which could possibly occur in our shipments of fuel would therefore have

only a limited effect upon the value of our overall exports to Western Europe.

Lesser role of erratic commodities

The accompanying chart shows that the remaining changes in our total nonmilitary shipments to Western Europe during 1956-59 were associated mainly with swings in exports of five individual commodities—raw cotton, steel mill products, steel scrap, copper, and civilian aircraft. These accounted for more than 70 percent of the rise in net overall (nonfuel) exports to Western Europe from the first half of 1956 to the comparable period of 1957, and again, for more than 70 percent of the corresponding decline from the first half of 1957 to the like period of 1959.

Though these same five commodities have been prominent contributors to the major upswing in exports to this area during the current year, their 45 percent share of the total increase was greatly reduced from that of 1956-57 (see chart). This is an indication that the current upturn in exports is more broadly based than was the rise of 1956-57.

The five selected items nevertheless did contribute as much as \$½ billion of

the total increase in our nonmilitary exports (excluding fuels) to Western Europe during the first half of 1960 as compared with a year earlier. Therefore, at least brief attention should be given to factors which may affect the immediate outlook for exports of some of these commodities.

Recent factors in European demand

It is anticipated that European demand for American cotton will continue to be fairly high during the balance of the current crop year. However, due to such factors as the tapering off of the rise in European textile production, the gradual buildup in European inventories of raw cotton and intermediate textile products, and the increased availabilities of raw cotton in competitor exporting countries, the outlook for U.S. cotton exports at the beginning of the current season was somewhat less optimistic than it had been a year earlier when stocks abroad of American cotton were very depleted.

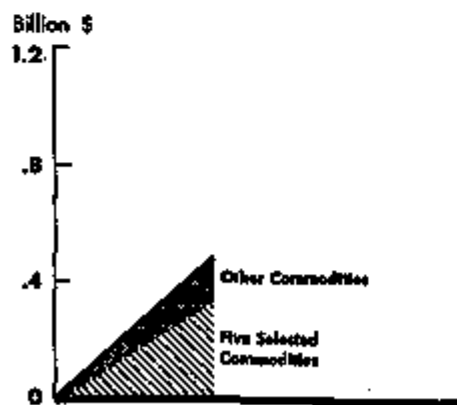
Judging by the large expansion in European steel output during the current year, and the further ambitious increases anticipated for 1961 and subsequent years, Western Europe's reli-

RECENT CHANGES IN U.S. NONMILITARY EXPORTS TO WESTERN EUROPE

Were More Broadly Based Than During the Previous Three Years

First Half INCREASE: 1956 to 1957

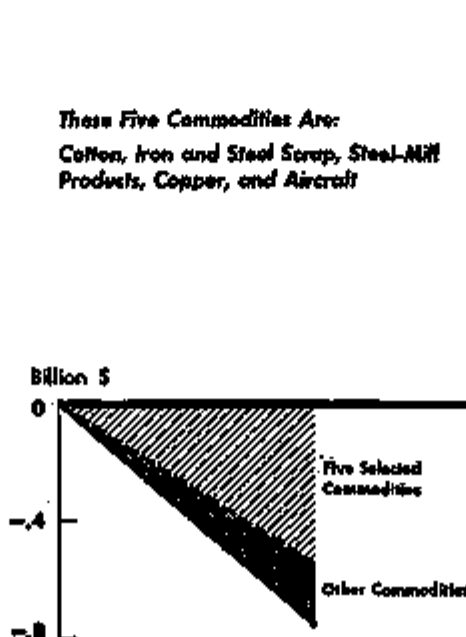
Five Commodities Accounted for Over 70 Percent of the Gain



NOTE.—Excludes exports of fuel which showed an extraordinary rise and fall during and after the Suez Crisis of 1956-57.

First Half DECREASE: 1957 to 1959

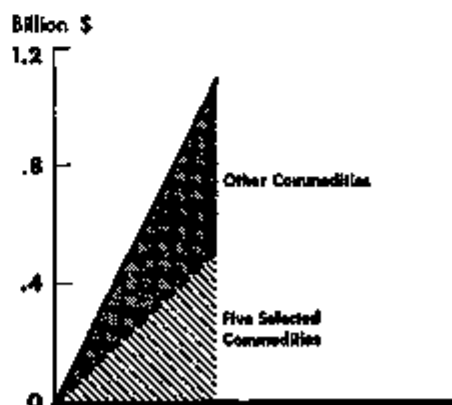
The Same Five Commodities Accounted for Over 70 Percent of the Decline



These Five Commodities Are:
Cotton, Iron and Steel Scrap, Steel-Mill Products, Copper, and Aircraft

First Half INCREASE: 1959 to 1960

These Five Commodities Accounted for 45 Percent of the Increase



SOURCE: Bureau of Economic Analysis

ances on the United States as a marginal supplier of specialized types of steel, such as sheets and tubes, should be greatly reduced. Our steel shipments to Western Europe are already on the downtrend, having declined during both August and September.

Copper exports to Western Europe fell off in September and dipped further in October. Much of the increased European demand for copper imports from the United States during the current year has been induced by political unrest and labor difficulties in traditional African and Latin American supply sources with resulting uncertainties concerning the steadiness of future supplies.

Deliveries of jet aircraft to European carriers should hold up fairly well through mid-1961, based upon the current status of manufacturers' order books. Prospects beyond that point are uncertain, being largely dependent upon whether or not foreign airlines will require further large additions to their already greatly expanded fleets.

Capital goods exports to Europe

In addition to the five selected commodities discussed above, a rise of one-third in exports of machinery to West-

ern Europe in January-June 1960 contributed \$125 million to our improved sales performance in that area as compared with a year ago. This upturn may have been due in part to the progressive relaxation of European import controls which had discriminated against dollar purchases. However, it was mainly in response to the European investment boom—a boom in which American companies have been prominent participants.

The continued strength in Europe's demand for capital equipment—as evidenced by the further lengthening in delivery terms offered by European producers of machine tools and other types of machinery—appears to foretell a continuation, for some time, of the favorable market for U.S. machinery sales in Western Europe, though such appraisals are fraught with uncertainties.

Competitive output overseas grows

Though the remaining \$460 million year-to-year rise in exports to Western Europe during January-June 1960 reflected noteworthy increases in a variety of liberalized finished consumer-type items, it consisted mainly of gains in a number of industrial materials includ-

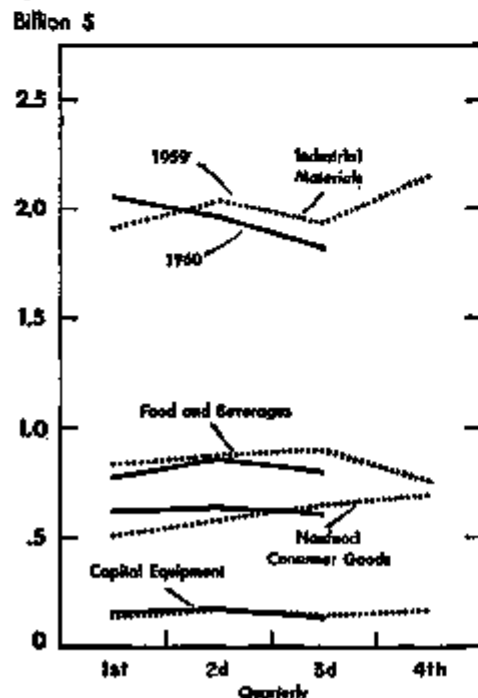
ing, among others, aluminum, chemicals, synthetic rubber, man-made fibers, and wood and paper.

The outlook for exports of many of these basic commodities is undoubtedly a function of what happens to the foreign boom, and is clouded by other factors such as the growth in Europe's own competing productive facilities. Western Europe's capacity to produce items such as aluminum, synthetic rubber, man-made fibers, and other chemicals is increasing rapidly. Whether or not this will result in a displacement of our exports depends upon the extent to which Europe's market for these products is expanding and upon the ability of our exports to meet the new competition.

Europe's consumption of many of these commodities still lags far behind our own. The current share of synthetic rubber in Western Europe's total use of new rubber is less than 40 percent, a ratio little more than one-half that of the United States. At the same time, Europe's four top users of aluminum—the United Kingdom, Germany, France, and Italy combined—consume an average of only 10 pounds per capita as compared with 27 pounds in the United States.

U. S. MERCHANDISE IMPORTS

Declines in All Major Categories



Source: Census Bureau

U. S. Department of Commerce, Office of Business Economics 50-12-0

U.S. Merchandise Imports Lower

IMPORTS in all four major economic categories in the third 1960 quarter were lower than a year earlier (see chart). Though reductions in imports of industrial materials and foodstuffs accounted for the bulk of the over \$1 billion year-to-year decline in the annual rate of total imports during the third quarter, decreases in imports of passenger cars and a number of other types of nonfood consumer goods were also major contributing factors.

Industrial Materials Decline

Except for imports of petroleum, iron ore, and textile fabrics, arrivals of practically all major types of materials have shown a year-to-year decline since the first quarter. If these three items are

excluded, the year-to-year drop during the third quarter in the remaining segment of our imports of industrial materials was well in excess of \$800 million at an annual rate.

About \$240 million of the latter drop was accounted for by reduced imports of steel mill products which during the last half of 1959 and in early 1960, due to last year's steel strike, had been extraordinarily high. About three-fourths of the remaining amount was due to lower arrivals of copper, aluminum, nickel, and other crude and semi-manufactured metals; crude rubber, lumber, and other building materials; and unmanufactured wool.

An examination of the relationships between supply and final purchases of major individual commodities reveals

that the decline in imports has generally paralleled a similar movement in domestic consumption. It also indicates that the reduction in our overall demand for a number of important items—particularly metals—appears to have affected imports more than competing domestic production. This may, in part at least, be attributed to the large purchases of primary materials by other industrialized countries.

Downturn in nonferrous metals

Throughout most of 1960 domestic consumption of both aluminum and copper has trailed substantially behind last year's rates. The full impact of our reduced demand for aluminum after the first quarter was borne by imports which, additionally affected by the cancellation of aluminum purchase contracts with Canada's major producer in the early months of the year, slumped nearly two fifths below last year's volume in the first 10 months of 1960. Domestic primary aluminum output, in contrast to imports, was well main-

tained through the third quarter. Notwithstanding our greatly increased exports during the year, inventories of aluminum at the end of September had risen to a new high.

The same supply-threatening factors which helped promote our exports likewise affected imports of copper. These imports, though lower after the first quarter, have continued to hold up better than would otherwise have been the case. This is also true of domestic copper production, which swung into high gear after the strike settlements early in the year and has since been maintained at a near record rate.

Since the supply uncertainties are not yet fully resolved, as evidenced by the continued political unrest in Africa and the possibility of a new copper tieup in Chile at the turn of the year, the volume of copper imports may be fairly well sustained during the fourth quarter despite the continued lack of vigor in domestic consumption. The dollar value of such imports, however, may drift lower due to the break in copper prices early in October.

Dip in rubber, lumber, and wool

The volume of rubber imports in the first 10 months of 1960 was less than three-fourths as large as in the same period of 1959, but much higher world rubber prices in the current year limited the decline in the value of such imports to 10 percent. The substantial tonnage contraction is partly explained by the continued decline in the ratio of natural to total consumption of new rubber—from nearly a third in January 1960 to less than 30 percent in October.

It also reflected a partial displacement of imports by sales of natural rubber from the Government's strategic stockpile—a program initiated in October of 1959. This program is a long-term one which will be suspended only during periods when spot prices for natural rubber fall below 30 cents a pound. The major declines in prices for natural rubber since midsummer are yet to be reflected in the import statistics.

Until there is a substantial upturn in home construction, imports of lumber and other building materials may continue to be lower than in 1959.

Imports of apparel wool by the third

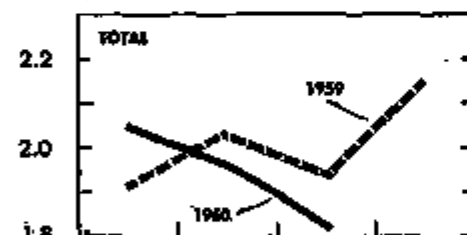
quarter of 1960 had slumped more than two-fifths below those of July-September 1959, over three times the concurrent rate of decline in consumption. In contrast to imports, domestic production of apparel wool, stimulated by the Department of Agriculture's incentive payments program, has been somewhat higher than during last year.

Shift in oil pattern; iron ore up

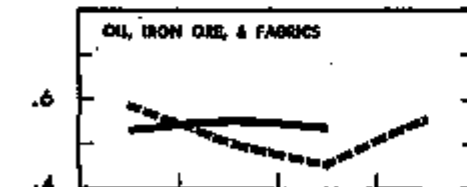
With prices down and the volume of imports sharply lower than a year ago when oil imports were inflated in anticipation of mandatory quotas imposed in March and April of 1959, the value of oil arrivals in the first quarter of 1960 was almost \$120 million below the same year-earlier quarter. In the following 6 months, however, this year-to-year decline was nearly canceled out as petroleum imports registered a \$100 million gain over

U. S. IMPORTS OF INDUSTRIAL MATERIALS Year-to-Year Drop After First Quarter

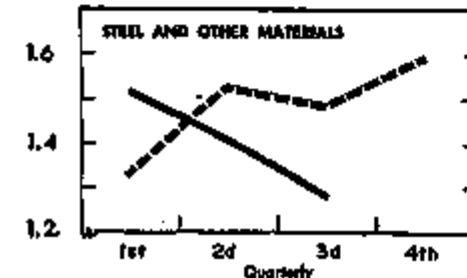
Billion \$



Groups Above a Year Ago:



Groups Below a Year Ago:



Source: Census Bureau

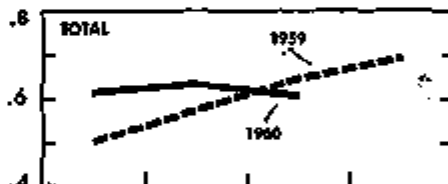
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U. S. IMPORTS OF NONFOOD CONSUMER GOODS

Year-to-Year Drop After Second Quarter

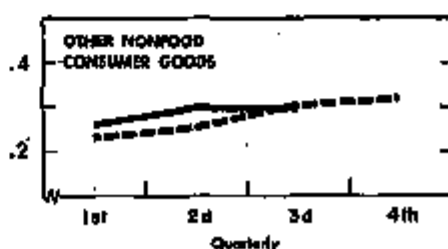
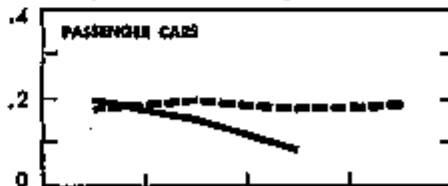
Billion \$



Groups Above a Year Ago:



Groups Below a Year Ago:



Source: Census Bureau

U. S. Department of Commerce, Office of Business Economics 60-12-10

April-September 1959. About half of the improvement reflected net upward revisions in the volume of quota allowances, while exempted imports—mostly bunker fuels—made up the remainder.

Notwithstanding the decline in the Nation's steel output after the March quarter, imports of iron ore have continued at a near-record rate. Domestic production of iron ore has also been maintained in excess of requirements with the result that iron ore inventories at the end of September were at a record high of 85 million tons.

Coffee, Meat, and Sugar Imports

Lower prices and reduced volume contributed almost equally to coffee imports declining by \$70 million at an annual rate in January-October 1960 as compared with a year earlier. Though roastings during the first three quarters of 1960 were about the same as a year ago, net additions to green coffee inventories amounted to less than 10 million pounds, in contrast to over 150 million pounds in the first three quarters of 1959. Still, at the end of the third quarter of 1960 such inventories were the highest in 3½ years.

The drop in imports of meat and cattle from last year's record rate reflected a shift to domestic sources of supply. In the first 10 months of 1960, the nation's cattle slaughter was up by nearly one-eighth from a year ago.

Special situation in sugar

Imports of sugar in the third quarter dipped about 20 percent below last year. This decline, an aftermath of the embargo imposed on Cuban sugar early in July, promises to be shortlived. Assuming that existing unfilled quotas and outstanding authorizations for purchases of nonquota sugar will be fully utilized before they expire at the end of the year, the volume of sugar imports during the fourth quarter will be at least 50 percent greater than that of October-December 1959. Such a high rate of arrivals, the bulk of which will be supplied by countries which previously had only very limited or no access to the U.S. sugar market, would boost the volume of imports for the year to a record or near-record high.

Mixed Trends in Consumer Goods

Divergent trends have characterized our recent imports of various types of nonfood consumer goods. Arrivals of appliances and of softgoods—apparel and other finished textiles, rubber, and leather articles—continued on the up-trend; imports of passenger cars declined sharply after the first quarter; and aggregate imports of other nonfood consumer goods lagged slightly behind a year ago beginning in the third quarter.

Auto imports hit by U.S. compacts

Reflecting the increasing success of U.S. compact cars in the domestic market, the volume of passenger car imports during July-September was

the lowest since the third quarter of 1957, having fallen by nearly three-fifths as compared to the third quarter of 1959. Beginning in April, monthly registrations of foreign autos have without interruption been running below a year ago. During July-September such registrations were down from last year by nearly one-fourth. The volume of imports in the third quarter was 57,000 below the number of registrations, an indication that nearly half of the cars sold were being supplied from inventories rather than from current imports. While there is apparently still room for some further reduction in inventories of foreign cars, the future course of auto imports will presumably run more parallel to the trend in registrations than it did in the third quarter.

Comparative Export Trends of Industrial Nations

THE upswing in U.S. exports in the first half of 1960 from the cyclical lows of a year earlier was relatively somewhat greater than the concurrent rise in exports from Japan and the OEEC countries (free Europe, excluding Finland and Yugoslavia) of Western Europe. While this performance lifted U.S. foreign sales by midyear to an annual rate slightly above the peak

yearly export total of 1957, the margin of our current lead over the next ranking contender as the world's top exporter was not so wide as it had been in that earlier year.

Exports from both Japan and the countries of Western Europe, having expanded almost continuously since the early 1950's with only a mild adjustment in 1958, were at a rate in the first half of

Table 3.—Total Exports of the United States, Japan, and Western Europe

(Seasonally adjusted,* in millions of dollars)

	United States* (excluding military aid)	Japan	OEEC countries of Western Europe						
			Total	United Kingdom	Germany	France	Italy	Netherlands	Belgium-Luxembourg
1957:									
1st quarter...	4,063	653	10,179	2,886	2,116	1,817	606	774	822
2nd quarter...	4,063	670	10,170	2,897	2,146	1,806	630	747	801
3rd quarter...	4,084	713	10,286	2,922	2,179	1,821	660	796	780
4th quarter...	4,060	703	10,227	2,876	2,194	1,807	663	799	780
1958:									
1st quarter...	4,101	711	10,069	2,863	2,181	1,821	642	789	777
2nd quarter...	4,080	680	9,819	2,805	2,190	1,809	654	801	723
3rd quarter...	4,102	688	10,309	2,891	2,247	1,874	630	870	771
4th quarter...	4,098	787	10,497	2,904	2,282	1,487	627	828	785
1959:									
1st quarter...	3,879	729	10,186	2,377	2,222	1,182	474	845	736
2nd quarter...	3,079	811	10,041	2,418	2,370	1,401	600	897	801
3rd quarter...	4,347	884	11,136	2,437	2,481	1,470	703	886	873
4th quarter...	4,143	1,062	11,904	2,662	2,681	1,667	703	999	887
1960:									
1st quarter...	4,001	696	12,471	2,646	2,850	1,798	908	984	930
2nd quarter...	4,038	958	12,200	2,671	2,748	1,829	941	1,011	938
3rd quarter...	5,032								

* Preliminary. * Bureau of Census recorded data, after seasonal adjustment (see footnote 1, below).
1. Seasonal adjustments: U.S. exports per U.S. Department of Commerce, Office of Business Economics; OEEC countries exports per OEEC Statistical Bulletin; Japan exports—seasonally adjusted data not available.

Sources: U.S. Department of Commerce, Office of Business Economics, based on OEEC and Japan foreign trade data.

the current year more than 20 percent, and nearly 30 percent, respectively, ahead of their 1957 pace.

European exports pause at midyear

In contrast to the successive gains in exports scored by the United States in each of the first three quarters of 1960 from the low 1959 performance, Western Europe's export expansion appeared to have been checked, at least temporarily, in the spring quarter. Sales to the United States after April slid below year-earlier levels and exports to the rest of the world were barely maintained. Japan, on the other hand, in the second quarter, resumed the prolonged export rise which had been briefly interrupted in the preceding quarter; its year-to-year gains in shipments to the United States, recorded in every month of the January-June span, were extended into the summer quarter.

Trends in manufactures

The U.S. share in world exports of manufactures,¹ calculated at 23 percent in the April-June quarter, was higher than in any of the preceding four quarters and well above the postwar low of slightly more than 19 percent recorded for the strike-affected final quarter of 1959.² Japan also upped its share of this trade in the spring quarter but virtually all the OEEC industrial nations, excepting Italy, slipped back from the quarter before.³

Here again, however, the long-term picture is different. Largely because of circumstances affecting Western Hemisphere markets where it is the dominant supplier, the U.S. share in world exports of manufactured goods, at 22 percent in the first half of 1960, has continued well below the 1956-57 average of over 25 percent.

In contrast, German's share of this trade has risen some 2 points from the 16 percent in 1956 and 5 from the 13 percent in 1953, and Japan's current

share of 6 percent is up by two-thirds from that of 1953 but only moderately as compared to 1956. Gains have also been won by France, Italy, and the Netherlands among others, as compared with the mid-fifties. The United Kingdom's current share of about 17 percent, on the other hand, represents a gradual decline from the 19 percent registered in 1956 and the 21 percent in 1953.

The partial restoration of the U.S. position in world exports of manufactured goods was centered around a number of the very same commodities which had figured so prominently in the 1959 deterioration of our relative trading position in finished goods, and which subsequently staged vigorous ral-

lies to rank among the pacesetters of the 1960 export boom. Leading examples of manufactured exports falling into this pattern were commercial aircraft, railway equipment, iron and steel, and copper.

In addition, a favorable influence on our current relative export position has been exerted by rising U.S. foreign sales of aluminum and of specialized types of industrial machinery, items which had performed relatively well last year and had helped limit the decline in our overall share of world exports of manufactures in that period.

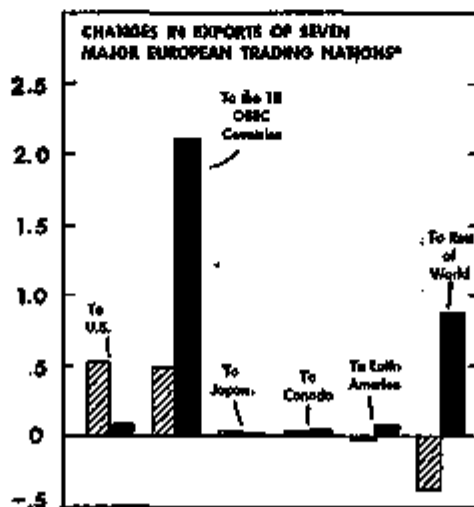
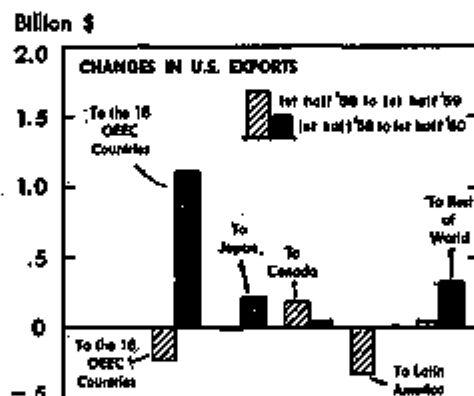
Trade gains in industrial markets

Currently, Europe has become the major target for export gains of the industrialized nations in contrast to a year ago when the United States was in that position (see chart). As Western Europe's economic activity boomed and imports advanced by over one-fifth in the first half of 1960 over the corresponding period of 1959, the direction of Europe's export expansion turned inward, shifting away from the U.S. market, where import demand was slackening off, and toward trade within its own area.

Data available for the major industrial nations of Europe⁴ shows that exports of this group of countries to each other and to the remaining OEEC area rose by about a fourth, or around \$2 billion, between the first half of 1959 and the first half of 1960, accounting for nearly two-thirds of the net gain in their overall exports to the free world. In the same period, the rise in exports to the United States was confined to less than \$100 million.

This movement is in marked contrast to developments in the first 6 months of 1959 when the sharp upturn in U.S. imports generated an advance of over half a billion dollars in the combined shipments of the Common Market nations and Britain to this country over the corresponding period of 1958, accounting for almost three-fourths of their \$700 million net increase in overall

INCREASED EXPORTS OF EIGHT INDUSTRIALIZED NATIONS Go Mainly to the 18 OEEC Countries



⁴ Six European common market countries and the United Kingdom.

Basic data: U.S. exports from Bureau of Census; European exports from OEEC Statistical Bulletin, Series A

U.S. Department of Commerce, Office of Business Economics 60-12-7

1. According to common usage in international trade analysis, sections 5, 6, 7, and 8 of the Standard International Trade Classification (excluding U.S. special category exports) encompass the terms "exports of manufactures," "finished goods," and similar expressions. This definition differs in several important respects from the U.S. Census classification of finished manufactures since it covers numerous goods classified by the Census Bureau as semi-manufactures, including base metals beyond the ore and concentrate stage.

2. Board of Trade Journal (London), October 15, 1960.

3. The six Common Market countries plus the United Kingdom, which together account for three-fourths or more of the total export trade of all the OEEC countries combined. Global exports for this group of countries expanded 21 percent between the first halves of 1959 and 1960, the same rate as was recorded for all the OEEC countries combined.

exports to the free world in that period.

The similar concentration of the United States' recent export expansion in the direction of Europe has been discussed earlier. While U.S. dollar gains from trade with OEEC Europe in the first half of 1960, at \$1 billion-plus, were less than half of the absolute gains recorded by the 18 OEEC countries from exports to each other, the relative increase of over 50 percent in our exports to that area was double that scored by intra-OEEC trade and more than twice as large as Western Europe's total import expansion over the year before.

U.S. ups share in India, Australia

The United States became India's top ranking overseas supplier during the course of 1960, pre-empting Britain's traditional role for the first time since 1952. This is a special situation accounted for by heavy movements of foodgrains and cotton which were sold for local currency under the Public Law 480 program. At the same time India's tight import restriction policy, aimed at conserving dwindling foreign exchange reserves, served to reduce that country's aggregate imports from the rest of the world.

Australia's total imports, on the other hand, sparked by a high rate of economic activity and assisted by a succession of import decontrol measures, were running at a record pace by mid-1960. As U.S. exports responded to the expanding demand, our share in that market increased from 14 percent to 17 percent in April-June 1960. This was a greater relative gain than that scored by any of Australia's other major industrial suppliers except Japan, whose current share is, nevertheless,

under one-third that of the United States and less than one-seventh that of the United Kingdom, still Australia's top supplier by a wide margin.

Western Hemisphere steady

In neither Canada nor Latin America did total imports in the first half of 1960 advance by 5 percent above a year ago. During the April-June quarter, U.S. shipments to Latin America as a whole moved ahead by some 2 percent over the same period a year ago, matching the equivalent rise in that area's total imports from all the industrial countries combined. If Cuba and Venezuela are omitted from the calculations—countries where a continued downturn in import demand due to special economic and political factors affected the United States especially unfavorably—our participation in the remaining Latin American market actually advanced in the spring quarter from 55 to 57 percent, with large relative gains scored in Argentina, Brazil, and Uruguay.

Canada's global import gains in the first 5 months of the current year were less than 4 percent above the corresponding period of 1959, with imports from the United States increasing in exactly the same ratio. As Canada's total imports dipped below year-earlier levels in the following 3 months, purchases from the United States slipped relatively more. In the first 8 months of 1960 the approximate two-thirds U.S. share of the Canadian market, was virtually unchanged from a year earlier, although the United States' current contribution to both Canada's and Latin America's import requirements is less than in 1956 and 1957.

Balance of Payments

(Continued from p. 10)

liquid funds and therefore reduce the incentive for business enterprises to invest them abroad. But the whole interest-rate structure has to be viewed in relation to the desired objective of raising domestic investment and employment as well as in terms of balance of payments effects.

The solution to our longer range balance of payments problem lies to a major degree in a further improvement in our competitive position in world trade as it affects both our exports and imports; it also requires, at least in the short run, reductions in nontrade expenditures and/or increases in nontrade receipts. The directive by the President, issued on November 18, 1960, "concerning steps to be taken with respect to the United States balance of payments" include—among other meas-

ures—actions to reduce our military expenditures abroad as these constitute one of the major debit items in the balance of payments. It seems appropriate, therefore, to bring up-to-date some detail about these transactions published in the November 1959 issue of the SURVEY OF CURRENT BUSINESS.

Review of Defense Expenditures Abroad

As the two accompanying tables show, defense expenditures reached a high of \$3.4 billion in 1958 and subsequently have declined to about \$3 billion in the year ended June 1960. The expenditure categories which accounted for most of the decline from the peak were construction, foreign procurement under the military aid program,

and purchases of materials and supplies for our own use. Some of these expenditures can be expected to decline further.

Of the \$3 billion expenditures in fiscal year 1960, about \$150 million were made in foreign currencies acquired mainly through sales of agricultural products. These local currency transactions did not, of course, contribute to the deficit in our balance of payments. Something over \$400 million consisted of expenditures for defense related activities by agencies other than the Department of Defense, and close to \$300 million were made under the military assistance program. The latter include military assistance offshore procurement, mutual weapons development, weapons production, NATO infrastructure, and various services. Thus, dollar expenditures abroad from appropriations for military functions of the Department of Defense were about \$2.2 billion.

Defense Expenditures Abroad for Goods and Services, by Major Category and by Major Country

	Calendar years			Year ended June 30, 1960
	1957	1958	1959	
Total.....	3,185	3,412	3,000	3,028
Expenditures by troops, civilian personnel, post exchange, etc.....	845	860	872	855
Foreign expenditures for construction.....	371	318	217	198
Contributions to the NATO multilateral construction program (infrastructure).....	65	72	68	80
Other expenditures for services.....	630	780	758	750
Offshore procurement under military assistance programs and expenditures for mutual weapons development and weapons production.....	873	232	148	130
Purchases of equipment, purchases of other materials and supplies.....	54	40	38	38
	828	1,115	987	964
Bahrain and Saudi Arabia.....	54	52	53	50
Belgium-Luxembourg.....	36	45	23	26
Canada.....	283	444	428	412
Denmark.....	34	40	49	46
France.....	288	370	303	283
Germany.....	453	680	846	655
Italy-Trieste.....	163	117	115	112
Japan.....	467	417	381	361
Korea.....	85	38	91	83
Norocco.....	43	54	25	27
Netherlands Antilles.....	78	57	57	57
Philippines.....	67	68	40	47
Ryukyu Islands.....	55	64	64	62
Spain.....	57	52	71	68
Turkey.....	87	48	85	41
United Kingdom.....	488	808	287	286
Other countries.....	332	324	362	362

Source: U.S. Department of Commerce, Office of Business Economics, from information made available by operating agencies.

Sales by or through our military organizations were close to \$300 million both in 1958 and 1959, but some increase over that rate has occurred recently and can be expected to continue for some time.